

A crisis of confidence in international lending is curtailing the flow of capital to less developed countries (LDCs). At a minimum many LDCs will have to make strenuous economic adjustments. At worst these required adjustments may be so severe as to disrupt economic activity and spur a political backlash against Western governments and financial institutions.

For the first time, most of the handful of LDCs that account for the bulk of the group's borrowing from foreign banks either cannot or are in the imminent danger of being unable to meet their debt service obligations. LDCs have been hit hard by the lengthy industrial country economic recession and high real interest rates. Some oil exporters--Mexico, Venezuela, Nigeria, and Ecuador--face serious financial difficulties because of inability to adjust their profligate spending habits to the new oil market realities. The plight of others, especially Argentina, has been made worse by political instability and economic mismanagement. Under the best of circumstances, it will take many LDCs at least two years, and in the case of Mexico and Argentina probably longer, to regain a strong enough foreign financial position to allow sustained economic growth.

Events in Argentina and Mexico have transformed the debt problem from one that could be treated purely as reflecting deficiencies of policies and management in a few countries to one that involves the health of the entire international financial system and the performance of the world economy. Bankers are curtailing loans to countries like Brazil not just because their assessment of Brazil's domestic policies has turned negative, but

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also because they are extremely nervous about a high degree of exposure in the present world environment. They are carefully watching their exposure not only to problem countries, but to all of Latin America, and even to LDCs as a group.

The decline in the net inflow of bank lending, on top of a substantial drop in export earnings, is forcing LDCs to substantially curtail imports. The needed import cuts will be especially large in Mexico and Brazil, countries which have close trade links with the United States. LDC import cuts will be accompanied by reductions in incomes and economic activity, which will entail painful political decisions and conflicts. The economies of the industrial nations also will be adversely affected as is already occurring in the United States as a result of the severe problems in Mexico.

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29 November 1982

MEMORANDUM FOR: The National Intelligence Council

FROM : Hal Ford

SUBJECT : NIC's Preparation of DCI World-wide
Congressional Testimony for 1983

This memo (1) confirms [] informal tasking of the NIC,
(2) offers recommendations for the content and presentation of testimony for
the DCI, and (3) indicates tasks for individual NIOs.

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A. Tasking of the NIC -- Procedure.

1. As indicated by [] the NIC is to deliver a first draft by
c.o.b. Friday, 17 December.

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2. To that end, (NIOs) please submit to me your respective draft
sections by c.o.b. Wednesday, 8 December. I will meld these and return a
first package in draft, for your review. Please then give me your comments on
that draft package by c.o.b. Wednesday, 15 December.

3. What is needed from the NIO's:

- Except as may be indicated otherwise below: (a) some fairly brief paras., in narrative form, to be included in the DCI's initial presentation (a total of only 50-60 minutes); and (b) some lengthier back-up talking papers for the DCI on those questions which you feel need mention or which speak to followup congressional questions the DCI would be likely to get. Please also indicate where graphics, briefing boards, etc., are to be used (though these need not be ready by 8 December).
- NIOs will wish to have checked their drafts with DDI or other colleagues, as appropriate, for assistance re facts, judgment, and graphics.

B. Presentation and Content

4. As I propose in the outline below, we should not offer up a general
tour of the horizon which hits equally all the questions [] listed, but
a draft presentation which:

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- Focusses especially on a those questions of the DCI's which we consider are of greatest consequence for US interests.
- Makes use of maps, charts, and other graphics, to put some variety and wiggle into the presentation.
- Contains a lot of documented facts -- facts (whether from clandestine or compartmented sources) which are unique in character; which dramatize what the intelligence community is contributing; and which are aimed at avoiding ho-hum, I've seen this in the NYT, congressional reactions.

5. Recommended points to highlight in the DCI's presentation:

a. Key questions for US policymaking created by simultaneous new leaderships: in the USSR, Japan, West Germany, and Mexico. Concerning the most significant of these, the Soviet, we have these insights into the phenomenon of Andropov (NIO/USSR-EE).

b. Key briefs concerning Soviet strategic programs (NIO/SP), to include:

- The massive array of Soviet strategic weapons programs.
- Probable responses to US MX moves (with NIO/USSR-EE).
- Probable responses to likely NATO INF moves (with NIO/USSR-EE and NIO/LA).
- Soviet ABM prospects.
- Soviet cruise missile developments and changed estimated operational dates.
- Ditto Typhoon missiles.

c. Key briefs concerning sharply rising Warsaw Pact capabilities (NIO/GPF), to include:

- W.P. airforce buildup.
- New W.P. operational maneuver measures.

d. Key briefs concerning the Near East (NIO/NE), to include:

- Prospects for Israeli-Palestinian matters, and for Israeli politics.
- Prospects for Lebanon.

- Ditto the Iran-Iraq war.
- Whither Iran -- and US policies thereto.
- Pakistan-India (including nuclear weapons questions).
- USSR-Afghanistan-Pakistan (with NIO/USSR-EE).
- Whither Khadaffi.
- Oil market (with NIO/Econ and NIO/AL/HH).
- e. Key briefs concerning Central America (NIO/LA), to include:
 - Prospects for Nicaragua, domestically and in the region.
 - Prospects for Soviet and Cuban activities and influence in the area (with NIO/USSR-EE).
 - Prospects for insurrection in the region.
 - Prospects for Mexico, domestically and in the region (with NIO/Econ).
 - Prospects for democratic growth in the region.

6. Recommended additional points to stress, though in shorter compass than those (of para. 5) above. That is, prospects concerning:

- a. Post-Brezhnev Soviet politics and policies, other than above (NIO/USSR-EE).
- b. Soviet attitudes toward arms control (NIO/USSR-EE).
- c. Other than W.P., key developments in Soviet conventional forces (NIO/GPF).
- d. World financial distress (NIO/Econ, NIO/AL/HH, NIO/AL/LG).
- e. Atlantic bridge (NIO/AL/LG and NIO/WE).
- f. Horn of Africa (NIO/AF and NIO/USSR-EE).
- g. Southern Africa (ditto).
- h. Prospects for Sino-US relations (NIO/EA).

7. Recommend we include at least brief mention of need to watch certain wild-card contingencies, to include the possibility of:

- a. Soviet ballistic weapons in the Caribbean area.
- b. Substantially enhanced Soviet-Cuban military support of Nicaragua and/or of revolution in Central America.
- c. Substantial increase in Soviet strategic weapons' CC&D.
- d. Greater Sino-Soviet rapprochement than has appeared likely thus far.
- e. INF negotiations and deployments go awry.
- f. Substantial increase in economic and social problems within the USSR.
- g. Substantial increase in East European military unreliability.
- h. Soviet negotiating ploys re Afghanistan.
- i. Other

8. Package will include capsuled mention of key developments of the past year in US intelligence capabilities affecting the above. .

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9. NIOs please add and subtract, as necessary, to the above.